Supreme Court, U.S.
FILED
MAY 23 2003
OFFICE OF THE CLERK

(3)

No. 02-1585

IN THE

Supreme Court of the United States

BAYSTATE TECHNOLOGIES, INC.,

Petitioner,

v.

HAROLD L. BOWERS
(DOING BUSINESS AS HLB TECHNOLOGY),

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REPLY BRIEF FOR PETITIONER

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May 23, 2003

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CORPORATE DISCLOSURE STATEMENT

During the underlying litigation, Petitioner Baystate Technologies, Inc. changed its name to Cadkey Corporation. Cadkey Corporation (formerly known as Baystate Technologies) is not wholly owned by another entity and has no subsidiaries. Kubotek Corporation Inc. of Osaka, Japan owns 10% or more of the stock in Cadkey Corporation.

TABLE OF CONTENTS

CORPORATE DISCLOSURE STATEMENT i

TABLE OF AUTHORITIES ii

REPLY 1

I. *THE LAW IS NOW OUT OF BALANCE* 1

II. *THIS COURT SHOULD RESTORE BALANCE* 3

III. *PREEMPTING CONTRACT CLAIMS FOR REVERSE ENGINEERING KEEPS THE BALANCE* 4

CONCLUSION 9

TABLE OF AUTHORITIES

CASES:

Acorn Structures, Inc. v. Swantz, 846 F.2d 923 (4th Cir. 1988) ..... 4 n. 4

Atari Games Corp. v. Nintendo of America, Inc., 975 F.2d 832 (Fed. Cir. 1992) ..... 7 n. 6

Bateman v. Mnemonics, Inc., 79 F.3d 1532 (11th Cir. 1996) ..... 7 n. 6

Bonito Boats, Inc., v. Thunder Craft Boats, Inc., 489 U.S. 141 (1989) 3, 4-5

Bowers v. Baystate Technologies, Inc., 320 F.3d 1317 (Fed. Cir. 2003) 2 n.2, 6, 7, 8

Brulotte v. Thys Co., 379 U.S. 29 (1964) 6

Feist Publications, Inc. v. Rural Telephone Service Co., 499 U.S. 340 (1991) 1

Hensley v. West, 212 F.3d 1255 (Fed. Cir. 2000) 3

Interpart Corp. v. Italia, 777 F.2d 678 (Fed. Cir. 1985) 3

Lasercomb America, Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1990) 6

Lotus Dev. Corp. v. Borland Int'l, Inc., 49 F.3d 807 (1st Cir. 1995), *aff'd by evenly divided court*, 516 U.S. 233 (1996) 6

Nat'l Car Rental Sys., Inc. v. Computer Assocs. Int'l, Inc., 991 F.2d 426 (8th Cir. 1993) 4 n.4

Nebbia v. New York, 291 U.S. 502 (1934) 5

Palmer v. Ligget Group, 825 F.2d 620 (1st Cir. 1987) 5 n.5

Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964) 5

Taquino v. Teledyne Monarch Rubber, 893 F.2d 1488 (5th Cir. 1990) 4 n.4

Vault Corp. v. Quaid Software Ltd., 847 F.2d 255 (5th Cir. 1988) 3

Wrench LLC v. Taco Bell Corp., 256 F.3d 446 (6th Cir. 2001), *cert. denied*, 534 U.S. 1114 (2002) 4 n.4

CONSTITUTIONAL PROVISIONS AND CODES:

United States Constitution

art. I, § 8, cl. 8
(the Intellectual Property Clause) 4

art. VI, cl. 2
(the Supremacy Clause) 4

United States Code

17 U.S.C. § 301(a) 4, 5 n.5, 7

MISCELLANEOUS:

1 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* (2002) 1, 2 n.3, 4 n.4, 5, 6

Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. Cal. L. Rev. 1239 (1995) 5

Stephen J. Meyers, *Copyright Pre-emption Is Still a Source of Dispute*, National Law Journal, May 12, 2003 3

REPLY

I. *THE LAW IS NOW OUT OF BALANCE*

This case is about balance. It is about the balance that the Constitution and the Copyright Act strike between authorship rights and free competition, between protected and unprotected expression, and between federal copyright and state contract law. More particularly, in exchange for a copyright monopoly over certain protectable expression, the author yields to the public the unprotectable material in the work, along with the associated right to reverse engineer that work to discover and use its unprotectable material. *See Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340, 349-50 (1991) ("copyright assures authors the right to their original expression but encourages others to build freely upon the ideas and information conveyed by a work"); 1 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright*, § 3.04[B][3][a] at 3-34.8 (2002) ("Contracts are illegitimate to the extent that they attempt to arrogate blanket rights to commercialized goods that copyright itself denies").

The Federal Circuit's decision upsets this delicate balance by allowing the author to nullify, through contract, the right to reverse engineer and, accordingly, take back the material dedicated to the public domain. This Court should grant certiorari to restore the balance that the Federal Circuit's decision has destroyed.[1]

Thus, this case concerns whether a contract may prohibit copying of unprotectable material in a copyrighted work. It does not concern, as Bowers

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[1] The Institute of Electrical and Electronics Engineers--United States of America has informed the parties' counsel that it too will urge this Court to grant certiorari.

misrepresents, trade secret protection. Indeed, Bowers's crux argument--that his claim is not equivalent in substance to a claim for copyright infringement--must fail because it rests on his misrepresentation that his claim is for reverse engineering of trade secrets. But Bowers never alleged that his Geodraft user interface contains trade secrets or even that Baystate misappropriated any trade secrets. Indeed, the Geodraft user interface is, by its very nature, public. So merely observing its operation or, for that matter, copying it, cannot be theft of trade secrets.[2] Moreover, the jury never considered a trade secret claim. Petition at 68a-72a. Nor did the Federal Circuit rely on or even mention trade secrets when it decided this case. This case involves copyrights and contracts, not trade secrets.[3]

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[2] The Federal Circuit described the evidence of Baystate's reverse engineering as "analyzing" Geodraft and the existence of extensive and unusual similarities between the parties' software user interfaces. *Bowers v. Baystate Technologies, Inc.*, 320 F.3d 1317, 1326 (Fed. Cir. 2003).

[3] Baystate does not seek to nullify claims by which software owners seek to prevent true misappropriation of trade secrets, as Bowers mistakenly contends. Authors do not give up their trade secrets in exchange for a copyright monopoly. *See, e.g., Nimmer on Copyright, supra,* § 1.01[B][1][h] at 1-39 to 1-41 and § 3.04[B][3][a] at 3-34.8 (noting difference in preemption analysis between works that are held confidential and those that have been commercialized). But this case does not involve trade secrets or even software kept hidden. Rather, it involves commercialized, publicly available software. Thus, Bowers's newly fashioned allegation that Baystate "surreptitiously" obtained the software is irrelevant. Bowers gives no record cite for that claim, and there is none. To the contrary, Bowers himself sent an unsolicited "demo" disk of Geodraft to Baystate, which thus openly obtained the software. Petition at 5 and 109a.

II. *THIS COURT SHOULD RESTORE BALANCE*

In his dissent, Circuit Judge Dyk notes a direct conflict between the Federal Circuit majority's 2-1 decision and the Fifth Circuit's *Vault* decision. Indeed, others are urging Supreme Court review of this case "to bring uniformity to the courts' application of the pre-emption doctrine to claims based on state law." Stephen J. Meyers, *Copyright Pre-emption Is Still a Source of Dispute*, National Law Journal, May 12, 2003, at S2; *see also supra* n. 1.

Bowers's characterization of the Federal Circuit's decision as an "extrapolation" of First Circuit law is irrelevant to whether it creates a conflict with the Fifth Circuit. Indeed, in *Bonito Boats, Inc., v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 144 (1989), this Court granted certiorari to resolve a conflict between the Florida Supreme Court and the Federal Circuit on a preemption issue, even though the Federal Circuit's conflicting decision applied Ninth Circuit law. *See Interpart Corp. v. Italia*, 777 F.2d 678, 684 (Fed. Cir. 1985) ("Whether California's plug molding statute is preempted by federal law involves a consideration, under Ninth Circuit law . . .").

The fact remains that the Federal Circuit in this case held that a shrinkwrap contract provision barring reverse engineering is not preempted, while the Fifth Circuit in *Vault* held that a nearly identical shrinkwrap provision is preempted. *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 270 (5th Cir. 1988). The Federal Circuit's decision now stands as citable precedent for all litigants--particularly those from the First Circuit--that argue appeals in the Federal Circuit. *See, e.g., Hensley v. West*, 212 F.3d 1255, 1261 (Fed. Cir. 2000) (prior decision of one panel is precedent for all subsequent panels).

III. *PREEMPTING CONTRACT CLAIMS FOR REVERSE ENGINEERING KEEPS THE BALANCE*

Claims of breach of contract for reverse engineering based on copying of material within the subject matter of the Copyright Act must be preempted because such claims are equivalent in substance to claims of copyright infringement, whether or not the material is protectable.[4] 17 U.S.C. § 301(a).

In addition, "conflict preemption" requires nullification of any contract provision prohibiting reverse engineering of material that, as Baystate argues here, is unprotectable under the Copyright Act and that is reserved for public use. U.S. Const., art. VI, cl. 2 (the Supremacy Clause), and art. I, § 8, cl. 8 (the Intellectual Property Clause). Enforcement of a state law contract prohibition against reverse engineering such material, which the Copyright Act reserves for the public domain, creates a conflict between state law and the federal intellectual property law system. *See, e.g., Bonito Boats, Inc. v. Thunder*

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[4] None of the cases cited by Bowers permits contractual liability for conduct governed by the Copyright Act. Bowers's Opposition at 9. As the leading authority explains, these cases involve conduct outside the purview of the Act. *See Nimmer on Copyright, supra*, § 1.01[B][1][a]; *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 457 (6th Cir. 2001) (promise to pay for use of the work supplied extra element), *cert. denied*, 534 U.S. 1114 (2002); *Nat'l Car Rental Sys., Inc. v. Computer Assocs. Int'l, Inc.*, 991 F.2d 426, 432-33 (8th Cir. 1993) (contract prohibited use of software to process data for third parties); *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1501 (5th Cir. 1990) (contract precluded sales representative from using drawings of company for competitive business); *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923, 926 (4th Cir. 1988) (contract precluded use of copyrighted plans unless those materials were purchased).

Craft Boats, Inc., 489 U.S. 141 (1989) (Florida statute giving patent-like protection to unpatented articles preempted because it conflicted with the federal patent statute); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 228-31 (1964) (state unfair competition law cannot impose liability based on copying of article protected by neither federal patent nor copyright).[5] *See also Nimmer on Copyright, supra*, § 3.04[B][3][a] at 3-34.6 *et seq.*

Contrary to Bowers's argument, authors must abide by their bargain with the public--that is, authors may not take back, through private contract, the material that they dedicated to the public domain in exchange for a copyright monopoly over their protectable expression. Contract rights must yield to the public interest in allowing free access to unprotectable subject matter. *See Nebbia v. New York*, 291 U.S. 502, 510 (1934) ("Equally fundamental with the private right is that of the public to regulate [the private right] in the common interest"); Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. Cal. L. Rev. 1239, 1291 (1995).

This black letter constitutional principle is also the foundation for the entire body of copyright and patent misuse law. That law provides that courts will nullify private contract provisions that seek to extend the copyright or patent owner's monopoly beyond that

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[5] Baystate preserved its conflict preemption argument. In its opening brief in the Federal Circuit, Baystate did argue conflict preemption. *See* Corrected Brief of Defendant-Appellant Baystate Technologies, Inc., n. 10; *Palmer v. Ligget Group*, 825 F.2d 620, 625-26 (1st Cir. 1987). Baystate then argued conflict preemption in its reply brief and again in its petition for a rehearing. Bowers admits that the amici likewise argued conflict preemption to the Federal Circuit. In any event, Bowers does not and cannot argue that Baystate waived preemption pursuant to 17 U.S.C. § 301(a).

granted by law. *See, e.g., Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964) (invalidating contract requiring licensee to pay royalty beyond term of patent); *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 978 (4th Cir. 1990) (copyright owner licensor's license agreement improperly "attempts to suppress any attempt by the licensee to independently implement the idea which [the work] expresses"); *Nimmer on Copyright, supra*, § 3.04[B][3][a] at 3-34.10 and n. 142 ("Misuse disallows a heavy thumb weighing copyright's delicate balance entirely in the proprietors' favor").

Here, the Federal Circuit's decision upsets the balance between contract rights and copyrights because it allows contract protection of subject matter that the Copyright Act provides cannot be protected and must remain freely accessible. Specifically, the Federal Circuit expressly declined to consider Baystate's argument that Geodraft's user interface is not copyrightable. *Bowers*, 320 F.3d 1328. Baystate had argued that Geodraft consists of command "buttons," industry standards, and other unprotectable material. *See Lotus Dev. Corp. v. Borland Int'l, Inc.*, 49 F.3d 807, 817 (1st Cir. 1995) ("the 'buttons' of a computer program are . . . an uncopyrightable 'method of operation'"), *aff'd by evenly divided court*, 516 U.S. 233 (1996). Thus, the Federal Circuit held Baystate liable for reverse engineering Geodraft's unprotectable features. *Bowers*, 320 F.3d at 1327 (Bowers's shrinkwrap license prohibition against reverse engineering "encompass[es] but [is] more extensive than copyright protection").

But Baystate's reverse engineering of Geodraft to learn its ideas, functions, and other unprotected features is a permitted use to which Bowers and all authors accede in exchange for their copyright monopoly. Reverse engineering is thus a <u>right</u>--not

merely a defense, as Bowers contends--protected by the Copyright Act. *See supra* pp. 4-6.[6] Bowers cannot nullify that federal right through his state law contract claim.

Baystate does not urge, as Bowers mistakenly contends, that all reverse engineering is *per se* lawful. Rather, a contract provision barring reverse engineering is unenforceable only to the extent it is preempted by federal patent or copyright law. But reverse engineering of unprotectable material is *per se* lawful. The cases cited by Bowers are inapposite because they concern limitations on fair use of protectable original expression in the context of claims of copyright infringement. Bower's Opposition at 18-19. That issue does not arise here because the Federal Circuit expressly declined to determine whether Bowers's Geodraft even contains any protectable material. *Bowers*, 320 F.3d at 1328. Thus, Baystate's reverse engineering of Geodraft's unprotectable features may not be prohibited by contract.

Moreover, Baystate is not asking this Court to rule, as Bowers seems to believe, that all shrinkwrap licenses are unenforceable in general. The issue, as Baystate has always argued throughout this case, is narrower, *i.e.* whether a contract provision is enforceable if it seeks to afford copyright-like protection (§ 301 preemption) or seeks to bar reverse

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[6] Indeed, even when there is copying of protectable material during the reverse engineering process (although not the case here because the Federal Circuit declined to determine whether Geodraft contains protectable material), the copying may be permitted. *See Bateman v. Mnemonics, Inc.*, 79 F.3d 1532, 1542 n.22 (11th Cir. 1996) (it is "logical to view fair use as a right" under the Copyright Act); *Atari Games Corp. v. Nintendo of America, Inc.*, 975 F.2d 832, 842 (Fed. Cir. 1992) (reverse engineering to learn unprotected ideas and features is a fair use).

engineering of unprotectable material contained within a copyrighted work (conflict preemption). Baystate emphasizes shrinkwrap licenses primarily because reverse engineering clauses in such licenses are so prevalent and thus affect the entire software industry, not just the parties. Indeed, the harm that will ensue as a result of the Federal Circuit's decision extends beyond the software industry to all industries. *See Bowers*, 320 F.3d at 1337 (Dyk, J., dissenting).

For that reason, thirty-three law professors and eight national organizations urged the Federal Circuit to reconsider its decision, arguing in their *amicus* brief that a rule authorizing all reverse engineering clauses goes too far:

> Amici do *not* argue that shrinkwrap licenses that divert from the copyright act always are preempted, nor that all shrinkwrap restrictions on reverse engineering are preempted. In some circumstances, such as in a true trade secret context, a restriction on reverse engineering may be consistent with copyright policy. We are concerned however, that the Panel in this case has gone to the opposite extreme, adopting a blanket rule that such restrictions are never preempted. We believe that rule is both bad law and bad policy.

Brief of *Amici Curiae* in Support of Petition for Panel Rehearing and Rehearing En Banc of Defendant-

Appellant Baystate Technologies, Inc., at 4 (emphasis in original).[7]

CONCLUSION

This Court should grant certiorari so that it can resolve the conflict between courts of appeals and answer a question of national importance.

Respectfully submitted,

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[7] Bowers unnecessarily highlighted, in his opposition, the printer's typographical error involving the jury verdict form. Bowers's Opposition at 4. Baystate agrees that the willful infringement verdict in the Appendix is incorrect. But the misprint is irrelevant because this petition does not concern willful infringement.